Appendix A: Allocation and Use of State Child Care and Development Funds in Los Angeles County

Types of CDE-funded contracts

This report discusses the funding allocated to Los Angeles County contractors for several different types of programs. Each program has a specific population to be served and specific rules for providing services. Each program/contract type is described briefly below.

General Child Care and Development
These programs are center-based and usually provide services for children from birth through age five, full-day full year and are developmentally, culturally, and linguistically appropriate for the children served. These programs are administered by school districts, colleges, community-action agencies, and private nonprofit agencies. Between 2003-06 there were 110 contractors with this type of contract providing services in Los Angeles County.

State Preschool
State preschool programs are part-day comprehensive developmental programs for three- to five-year-old children from low-income families. These programs are developmentally, culturally, and linguistically appropriate for the children served. These programs are administered through school districts, colleges, community-action agencies, and private nonprofit agencies. Between 2003-06 there were 97 contractors with this type of contract providing services in Los Angeles County.

State Preschool Full-Day Program
The Budget Act of 1997 allowed state preschool program contractors the opportunity to extend their half-day programs to full-day programs with certain restrictions. Some current state preschool providers chose this wrap-around of their existing half-day programs to provide families with the extended services parents needed to maintain employment, meet work participation requirements, or to participate in education or job training. Agencies providing full-day services continue to operate in a half-day mode as a state preschool program, but must follow general child care rules and regulations for the remainder of the program day. Between 2003-06 there were 14 contractors with this type of contract providing services in Los Angeles County.

School Age Community Child Care Services (Latchkey)
School-age community child care programs provide a safe environment with age and developmentally appropriate activities for school-age children during the hours immediately before and after the normal school day and during school vacations. Between 2003-06 there were 31 contractors with this type of contract providing these services in Los Angeles County.

Alternative Payment Program
Alternative Payment Programs (APPs), funded with state and federal funds, offer an array of child care arrangements for income-eligible parents, such as in-home care, family child care, and center-based care. The APP makes payment for services directly to the child care provider selected by the family. The APP is intended to increase parental choice and accommodate the individual needs of the family. There are 14 contractors with this type of contract providing services in Los Angeles County including the Department of Children and Family Services (DCFS).

CalWORKs Child Care
Recipients of the California Work Opportunity and Responsibility to Kids (CalWORKs) grant program are required to engage in work or work preparation activities. CalWORKs programs provide an array of welfare-to-work services. Child care is provided with state and federal funds in three stages. This report only reviews the funding allocation and utilization for Stages 2 and 3, which are overseen by the CDE and administered by local County APPs. Stage 1 is administered by California Department of Social Services and is allocated directly to Department of Public Social Services (DPSS).

Stage 2 is administered by CDE through agencies that manage APP. CalWORKs families are transferred into Stage 2 when DPSS deems the family to be stable. Participation in Stage 1 and/or Stage 2 is limited to two years after the family stops receiving a CalWORKs grant. There are 13 agencies with Stage 2 funding in Los Angeles County.

Stage 3 is also administered by CDE through APPs. A family can move to this stage when it has exhausted its two-year limit in Stage 1 and/or Stage 2 (referred to as timing out), and for as long as the family remains otherwise eligible for CDE-funded child care programs. There are 13 agencies with Stage 3 funding in Los Angeles County.

Maximum Reimbursable Amounts

Each contract issued by CDE has a maximum reimbursable amount (MRA) which is the maximum amount for which the contractor can invoice the state based on the services provided. Unlike Head Start, which issues grant-based contracts to cover the cost of comprehensive services for an approximate number of children, CDE requires that each contractor earn their contracts by specific units of service called “child days of enrollment”. Each program type has a standard reimbursement rate (SRR) for each unit of service. For instance the standard reimbursement rate for General Child Care is approximately $32 per day per child. Example: a contractor has an MRA of $320,000; the contractor serves at least 40 children who attend 250 days each.

A contract is “over-earned” if a contractor provides more service than the contract required. For instance, the same contractor may have enrolled additional children for part of the year, thus earning an additional $2,000. The State is not liable for this extra amount. The contractor must cover the costs associated with extra service.* Likewise, if the full MRA is earned, but at a cost that exceeds the SRR, the contractor is responsible for obtaining the extra funding needed to cover those costs; the State is not liable. Contracts can also be “over-earned” when parent fees are involved. This will be explained in the section on parent fees.

Contracts can be ‘under-earned” as well. If enrollment and attendance is insufficient then the contractor will not earn the full contract amount despite actual expenditures. Suppose the contractor is only able to enroll 36 children who participate for 250 days, the contract will be under-earned by $12,800. Unearned contract funds revert back to CDE.

***** *The exception to this is the funding for CalWORKs Stage 2 child care. Eligible families must be served and if the number referred by DPSS for child care exceeds the prospective funding, the State draws from an accumulated reserve to make up the difference.*

Status of Under-earning among Los Angeles County Contractors

Based on the data supplied by the Fiscal Department of the CDE, Los Angeles County contractors have been allocated approximately $700 million annually between 2003 and 2006. Fully utilized, this is sufficient to serve over 100,000 children full time, full year. However, between $40 and $70 million dollars per year are not “earned’ and therefore are returned to CDE. The amount returned is sufficient to serve approximately 7,000 children full time for one year. The following charts display the total MRAs and under-earning amounts for each program type and for each year for all Los Angeles County contractors.

Contract Type	2003-04		
	MRA	Under-earnings	%
General Center	$ 205,690,326	$ 20,719,222	10.1%
State Preschool	$ 80,771,219	$ 10,689,014	13.2%
Full-Day State Preschool	$ 5,892,346	$ 245,072	4.2%
Latchkey	$ 9,630,652	$ 834,748	8.7%
Alternative Payment	$ 61,793,206	$ 5,271,510	8.5%
Stage 2	$ 238,483,841	$ 13,476,108	5.7%
Stage 3	$ 127,339,314	$ 13,165,436	10.3%
Total/year	$ 729,600,904	$ 64,401,110	

Contract Type	2004-05		
	MRA	Under-earnings	%
General Center	$ 208,839,068	$ 17,912,321	8.6%
State Preschool	$ 81,482,828	$ 6,492,370	8.0%
Full-Day State Preschool	$ 5,924,863	$ 236,940	4.0%
Latchkey	$ 9,541,060	$ 580,102	6.1%
Alternative Payment	$ 63,989,593	$ 2,889,145	4.5%
Stage 2	$ 199,748,515	$ 9,237,262	4.6%
Stage 3	$ 125,843,860	$ 5,206,377	4.1%
Total/year	$ 695,369,787	$ 42,554,517	

Contract Type	2005-06		
	MRA	Under-earnings	%
General Center	$ 208,342,843	$ 12,822,058	6.2%
State Preschool	$ 84,164,135	$ 10,062,917	12.0%
Full-Day State Preschool	$ 6,118,976	$ 338,073	5.5%
Latchkey	$ 8,367,860	$ 684,754	8.2%
Alternative Payment	$ 67,039,225	$ 3,999,324	6.0%
Stage 2	$ 193,388,470	$ 20,702,777	10.7%
Stage 3	$ 141,411,926	$ 7,024,291	5.0%
Total/year	$ 708,833,435	$ 55,634,194	

Contract Type	3 Year Totals by Contract Type		
	MRA	Under-earnings	Average % over 3 yrs.
General Center	$ 622,872,237	$ 51,468,758	9.9%
State Preschool	$ 246,418,182	$ 27,244,301	11.1%
Full-Day State Preschool	$ 17,936,185	$ 820,085	4.6%
Latchkey	$ 27,539,572	$ 2,099,604	7.6%
Alternative Payment	$ 192,822,024	$ 12,159,979	6.3%
Stage 2	$ 631,620,826	$ 43,416,147	6.3%
Stage 3	$ 394,595,100	$ 25,396,104	6.9%
Total over 3 years	$ 2,133,804,126	$ 162,604,978	6.4%

Reasons for Under-earning

The reasons for under-earning a contract are many and some of the reasons were explained extensively in last year's report on the State Preschool Program, including the fact that the population to be served required full-day care rather than a part day program. The following are additional issues that have surfaced in conversations with a targeted sample of current contractors.

1. Demographic shifts: Communities that had previously been very low income are becoming more diverse and there are fewer children and families who qualify. Many low income families have moved to other areas such as the Inland Empire.

2. Reduced numbers of 4 year olds: Many areas are reporting fewer preschool age children in their communities; this is confirmed by the local school districts which have recorded decreased school-age populations as well. Add to this fact, an increasing number of programs targeting 4 year olds, which means competition for CDE programs in certain areas.

3. Eligibility and Contract reimbursement rules:

   - Programs must enroll families regardless of how limited their schedules are. A parent who only needs six hours of care per day actually uses a full time slot, but the program is only reimbursed for a part time child. This is a particular handicap for college based programs where parent hours and days may be limited, but where it is almost impossible to find a child who only needs the care when another child does not.

   - Programs serving infants and toddlers are reimbursed at higher daily rates but only until a child is 18 months old. At 19 months the SRR is reduced although the child is still in the same classroom with the same teacher. As in the example above, it is not possible to add another child to make up the difference in SRR. The SRR for infants up to 18 months is approximately $46 per day per child. When the infant turns 19 months, this drops down to less than $40 per day per child. A program could be fully enrolled and still not earning thousands of dollars because a child's age changes.

   - Families must recertify whenever there is a change in family size, income or need for care. A qualifying family whose income increases just enough to take them over the income ceiling by even a few dollars a month will have their child care services terminated. This is disruptive to the child and puts the family at risk for unemployment. The child care program suffers as well since it now must rapidly fill a space that was previously filled. The enrollment process may take a few weeks to a month in order to make contact, obtain and verify eligibility documentation, and enroll the most eligible family waiting for care. In the meantime, the program cannot claim reimbursement for that vacant space.

   - Some program administrators have been very literal in interpreting the age guidelines for eligible children. For example, a program serving children 3-5 years old may terminate care once a child has his or her fifth birthday rather than serving the child until they enter kindergarten. This can create many vacancies that are hard to fill.

4. In some areas, the families most in need of care are undocumented and afraid of using any government services for fear of jeopardizing their future resident status, even though legal resident status is not a requirement in applying for CDE child care subsidies.

5. Some programs are attempting to blend funding from two sources in order to create a full day program to meet community needs. However they have trouble with non-congruent eligibility requirements of the different funding sources. They cannot find enough children who meet both sets of requirements and therefore under-enroll their programs.

6. Start-up periods usually result in an under-expenditure of funds, often for more than one fiscal year. CDE will allocate funds even when a facility is under renovation or construction. Given the additional time to complete building activities, obtain licensing and then ramp up enrollment, it is possible to severely under-earn a contract resulting in hundreds of thousands of dollars that are not used for services during that time period. This usually occurs whenever CDE issues new or expanded contracts. This is also common when large programs receive a cost-of-living-adjustment midway in the fiscal year.

7. CalWORKs Stage 2 and 3 child care funds are allocated based on anticipated take-up rates of CalWORKs clients. The agencies providing services through these contracts must have referrals from DPSS for Stage 2 families, and the Stage 3 families flow from those served in Stage 2. There was a fairly substantial amount of under-earned funds in these two categories (approximately $68 million) between 2003-06. Some agencies are reporting that the number of referrals for Stage 2 have increased in 2006-07 and are up this fiscal year as well.

8. Parent Fees: Parents enrolled in CDE-funded programs (except State Preschool) may have to pay fees if the family's income exceeds 50 percent of the State Median Income (SMI). The fees range from as low as $1 per week to nearly the full cost of care (market rate). Theoretically, families earning 75 percent of SMI should be able to pay market rate for child care and are therefore no longer eligible for the state subsidy.

   The agency administering the CDE-funded program collects the parent fees (although there are exceptions). These agencies may earn interest on the fees collected, usually a very small amount. Just as the agency or program must earn its contract MRA by providing child/days of enrollment, it can also earn the collected fees by providing additional child/days of enrollment beyond the amount stated in the contract.

   Example: Agency A has a contract for $100,000. To earn this contract amount, the agency must provide 500 child/days of enrollment. The agency also collects $2,000 in parent fees over a year's time. To earn the contract MRA and the parent fees, the agency must provide 510 child/days of enrollment. If Agency A meets its contractual obligation to provide only 500 child days of enrollment, the $2,000 in parent fees is subtracted from the $100,000 MRA so that the agency's reimbursement is $98,000. The agency also keeps the parent fees. However, in the fiscal record, it appears that the agency has "under-earned" their MRA by $2,000 even though they technically received a full $100,000.

Comparison of Under-earnings by Program Type

The range of under-earnings over the three year period examined, for each program type is as low as 5 percent (Full-day Preschool) to 11 percent (State Preschool). All program types are reporting under-earnings and between 51 percent and 97 percent of all contractors within each program type have under-earned their contract MRA. Not surprising, almost all the agencies (13) administering CalWORKS Stage 2 and 3 child care contracts have reported under-earnings during this period. What is surprising is that the Alternative Payment Program , the most flexible of all programs because of the ages served and the types of care that can be used, is being under-earned ($12,159,979 over 3 years).

While State Preschool accounts for 12 percent of all child development funding in the County between 2003-06, it has under-earnings of 17 percent. General center-based programs which provide full-day child development for children from 0-5 years accounts for 29 percent of all funding, and has under-earnings equal to 31 percent including the collection of parent fees; and APP represents 9 percent of all funding for child development, but only 7 percent of the under-earnings countywide.

San Francisco and San Mateo Counties: Legislative Waivers

The California State legislature passed two bills (AB 1326, Simitian 2003, and SB 201, Migden 2005) which designated first San Mateo County and subsequently San Francisco County as pilots to develop and implement individualized county subsidy child care plans which would address local needs, conditions, and the priorities of low-income families in each county.

The legislation was developed because of conditions in each county that made use of CDE funds increasingly difficult. Despite higher average incomes in each county, the cost of living is among the highest in the State; yet these families have to conform to statewide income ceilings in order to be eligible for assistance. More and more families were losing their child care subsidies because their incomes hit the income ceiling, even though they still badly needed the child care support. This in turn created almost constant turnover in the children being served, which is an administrative nightmare and is detrimental to the best of interest of the children.

The high cost of living also affects child care programs; the SRR from CDE for contracted child development centers is the same for all counties regardless of cost of living, making it difficult to deliver high quality programs on the CDE funding alone. In San Francisco, for instance, the SRR only covers about 60% of the actual cost of care. Several agencies in each county were planning to close operations due to the low level of funding provided by CDE.

The cost-funding disparity was creating another issue: under-earned contracts. Agencies were holding back on services because of the need for additional outside funding. For example: if it cost an agency $42 per day per child and CDE only reimbursed the agency $32 per day, then the agency must raise an additional $10 per day for each child served. In some cases, agencies could not provide sufficient extra funding, so had to limit the number of children they enrolled. This in turn meant they could not earn the full contract amount because they would not have enough child/days of enrollment.

Each county has worked directly with agencies funded by CDE to develop consensus on what could, and should be changed to ensure better utilization of State funding. Each county requested the ability to increase the income ceiling for eligibility and to increase the SRR for programs. The counties could not make any currently eligible family ineligible by means of new policies. As a condition of approving the county's plan, CDE required a 2 percent increase in the number of children served. San Mateo has achieved this.

CDE did not allow any shifting of unused funds between program types. For instance, unused State Preschool funds could not be applied to general center-based programs. In San Mateo, through negotiations and consensus building, it has been possible to shift some funding between contractors with the same contract type. In addition, the County was able to negotiate control of funds from a contract that had been turned back to CDE. The funding from this contract was used to increase the SRR for several providers who were then able to add more children and remain in operation. There has been an increase in the number of children served and in use of CDE funds.

In San Francisco, 30 of 31 contractors are participating in a consortium model headed by the local planning council. At this point, there have been no funds to implement actual change since no contractor has actually given up a contract yet. The APP raised the income ceiling to 85 percent of SMI; State regulation has it set at 75 percent of SMI. This had the effect of increasing the number of eligible families and the number of enrolled children. Parent fees were also increased for the group of families falling between the 75 percent and 85 percent income range. It is not clear yet whether these efforts will result in a real increase in the number of children served in San Francisco since their efforts have been initiated only recently.

While it is not possible to speculate about long term impacts, it seems that the short term results have been to reduce the loss of CDE-funded programs in each county and to increase the number of eligible children served in San Mateo County.